JANUARY 30, 1984 THREE DOLLARS

Forbes

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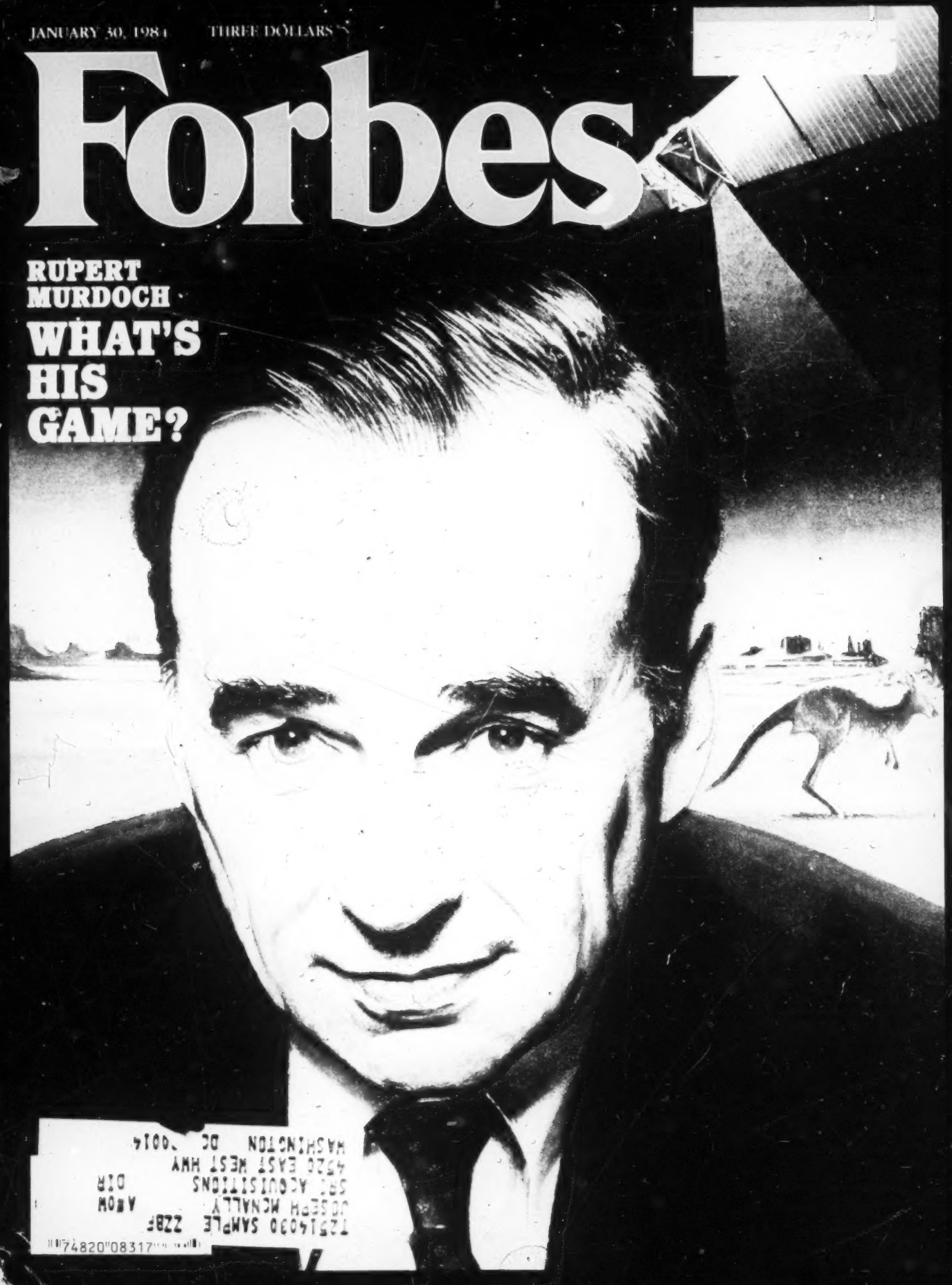
WHAT'S HIS GAME?



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Volume 133,
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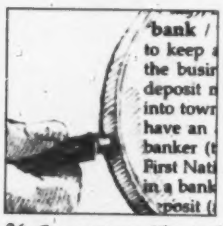

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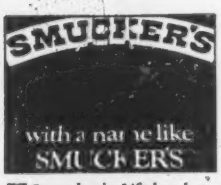

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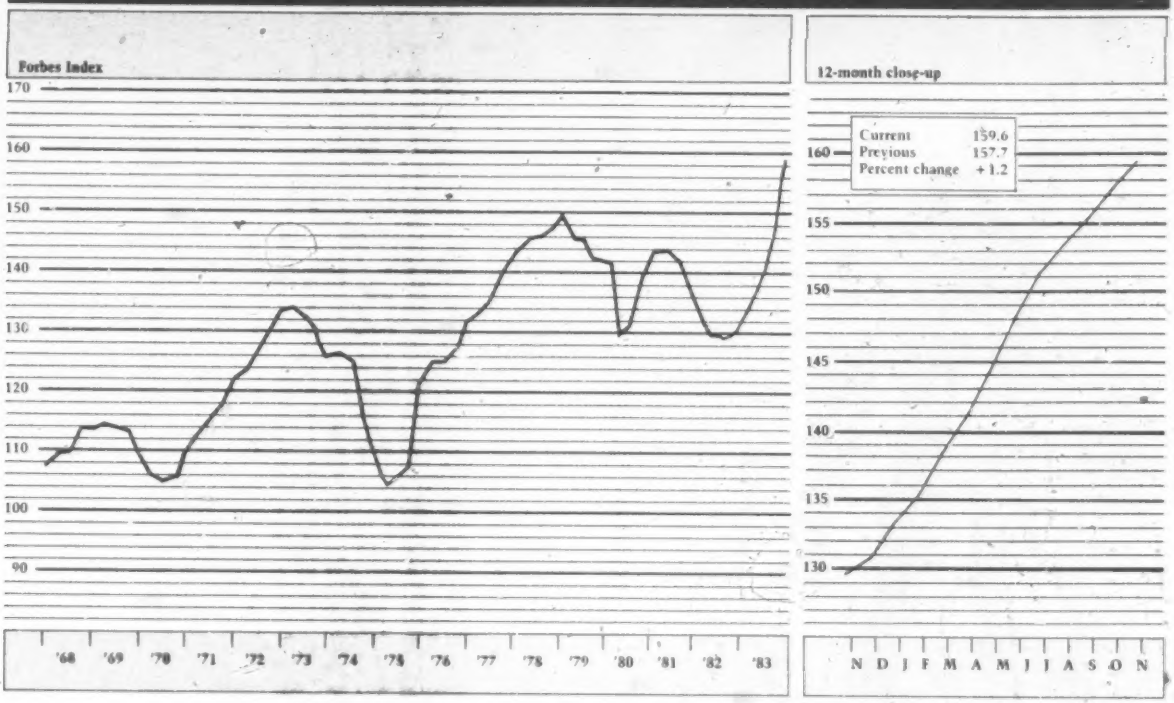
The Forbes Index

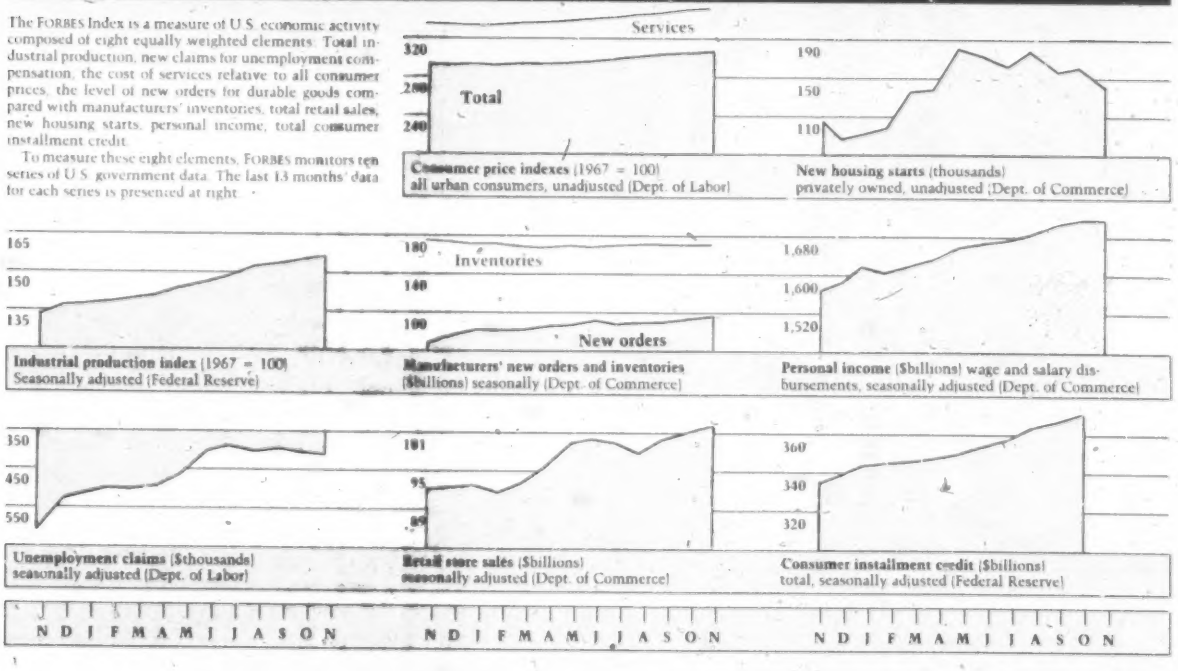


Every little bit helps. The Forbes Index, up 1.2%, is now some 23% higher than it was a year earlier. In the latest reporting period only one Index element was updated—the relationship between manufacturers' new orders and inventories. Even so, the three-month gain in orders relative to inventories is enough to boost the Index to a record high. And for the most recent month, new orders rose 3.6%, while inventories were up only 0.2%. Further evidence of how manufacturers have worked down their recession-bloated stockpiles can be seen by comparing these latest figures with those of one year ago. New orders are up nearly 37%, while inventories are down 4.6%.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



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Alone on a wide, wide sea

Sixties conglomerates were eager to sign up for sea duty, and several paid big bucks to buy into the shipping business. But now the nautical life has lost its allure.

A few companies—like Holiday Inns—have been able to find buyers for their maritime operations, but spinning the businesses off to shareholders is the latest trend. Some of these newly public firms, like American President Cos., are moving full steam ahead. But others, like Waterman Marine, face gloomier prospects. The biggest spinoff—R.J. Reynolds' jettisoning of $1.6 billion-a-year Sea-Land—may be approved early this year.

Some corporations have special reasons for leaving the business, but most are simply uncomfortable with the investment demands and unexciting returns. "The struggle for capital was really intense," says W.J. Amoss Jr., president of Lykes Bros. Steamship Co., which LTV sold to the Lykes family and management last year. Amoss says his company suffered in the competition with other LTV subsidiaries.

Transway spun off Waterman Marine, its U.S.-flag cargo carrier, because of potential legal problems. Waterman was profitable then, but no longer. It filed for bankruptcy in December. "We thank our lucky stars that those losses are not on our bottom line," says Transway Chairman John Wolcott.

The spinoff trend, however, may bring investor opportunity. For the first time in years, a few analysts are studying the shipping industry. "I feel like I did when I started to follow railroads five years ago," says Robert Long of First Boston. "Then that was a lousy industry, too, but here's American President Cos. with a better average return on equity and cash flow per share than Roadway Services, the premier trucking company." American President Cos. was spun off at 18¼, Long recommended it at 24 and it now sells for 30.—P.S.

A wave of spinoffs

This is the new fleet of shipping companies. But the biggest spinoff of all—R.J. Reynolds' $1.6 billion Sea-Land—may come this year.

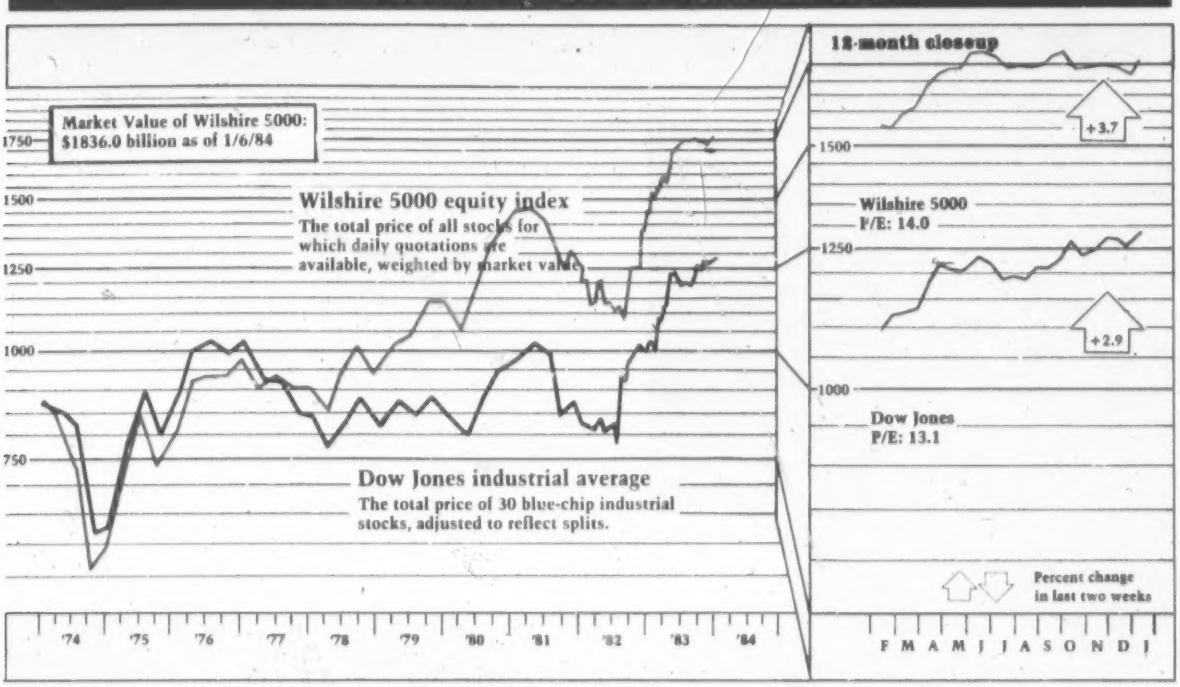
Spinoff *(parent)*	Year of spinoff	Sales* (000)	Net income* (000)	Recent stock price	Multiple
American President Cos *(Natomas)*	1983	$724,654	$11,784	30	27.5
Delta Steamship Lines[1] *(Holiday Inns)*	1982	NA	NA	NA	NA
Gotaas-Larsen *(IU International)*	1979	147,990	–87,701[4]	11⅛	def
International Shipholding *(Trans Union)*	1979	94,319	7,632	13½	3.4
Lykes Bros Steamship[2] *(LTV)*	1983	NA	NA	NA	NA
Marine Transport Lines *(GATX)*	1983	104,212	1,744	9	12.2
McLean Industries[3]	1983	805,425	39,138	10¾	11.6
Ogden Marine *(Ogden Corp)*	1984	183,960	3,980	4½	21.4
Waterman Marine *(Transway)*	1981	208,672	–32,516	5	def

*Latest 12 months. [1]Sold to Crowley Maritime. [2]Private company. [3]Went public August 1983. [4]Loss includes extraordinary $75.5 million reserve. def: deficit. NA: not applicable.

rally, is the energy business. But major problems loom in shipping. The container market faces a bout of overcapacity next year. Two aggressive competitors, Malcom McLean's U.S. Lines (FORBES, *Oct. 24, 1983*) and Evergreen Line of Taiwan, are due to launch new fleets. Their vessels come from foreign yards and cost far less than APC's U.S.-made ships, even with government subsidies.

Even in good times, Seaton's cash hoard won't build up as quickly. Without the shelter of Natomas' drilling operations, APC soon will have its first federal tax bill. Which means that Seaton will once again have to prove—this time to his new shareholders—that an oilman can command a shipping company just as well on the downside of the cyclical wave as on the rise. ■

The Forbes/Wilshire 5000 Review



Fad or fashion? The market started the new year in style, but it remains to be seen whether this bullish attire will stay in vogue. The early January rally can be explained, at least in part, by investors' snapping up issues that had been depressed by end-of-year tax-selling. One effect of the jump in stock prices is that the price-to-earnings multiple on the Wilshire index is up sharply, from 13.4 two weeks ago to 14 at present. Healthy increases in fourth-quarter earnings have already been discounted. But for the rally to be sustained, the market must be convinced that the economy and individual corporate finances can justify increasingly higher stock prices.

In the last two weeks the overall market, as measured by the broadly based Wilshire index, advanced 3.7%. In the current surge, growth stocks took a slight edge over blue chips. Look at the investor yardsticks below to see the relative strength of high-volatility, high-P/E and high-growth stocks. Enthusiasm for such shares pushed the NASDAQ ahead 4.1% and the Amex 3.6%. But the owners of more staid and conventional stocks have reason to smile, too: The Dow industrials were up 2.9%; the NYSE, 3.8%; and the Forbes 500, 3.7%.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	2.3	2.4	2.1	2.4	2.5	2.6
in last 52 weeks	17.7	16.6	19.6	16.8	25.7	20.7

Stock performance based on five key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	2.7	3.7	4.8	0.9	5.1	3.6	1.3	3.7	5.1	1.2	2.5	3.5
in last 52 weeks	19.7	56.5	49.0	27.8	33.0	54.7	26.7	54.3	49.5	28.3	31.7	47.9

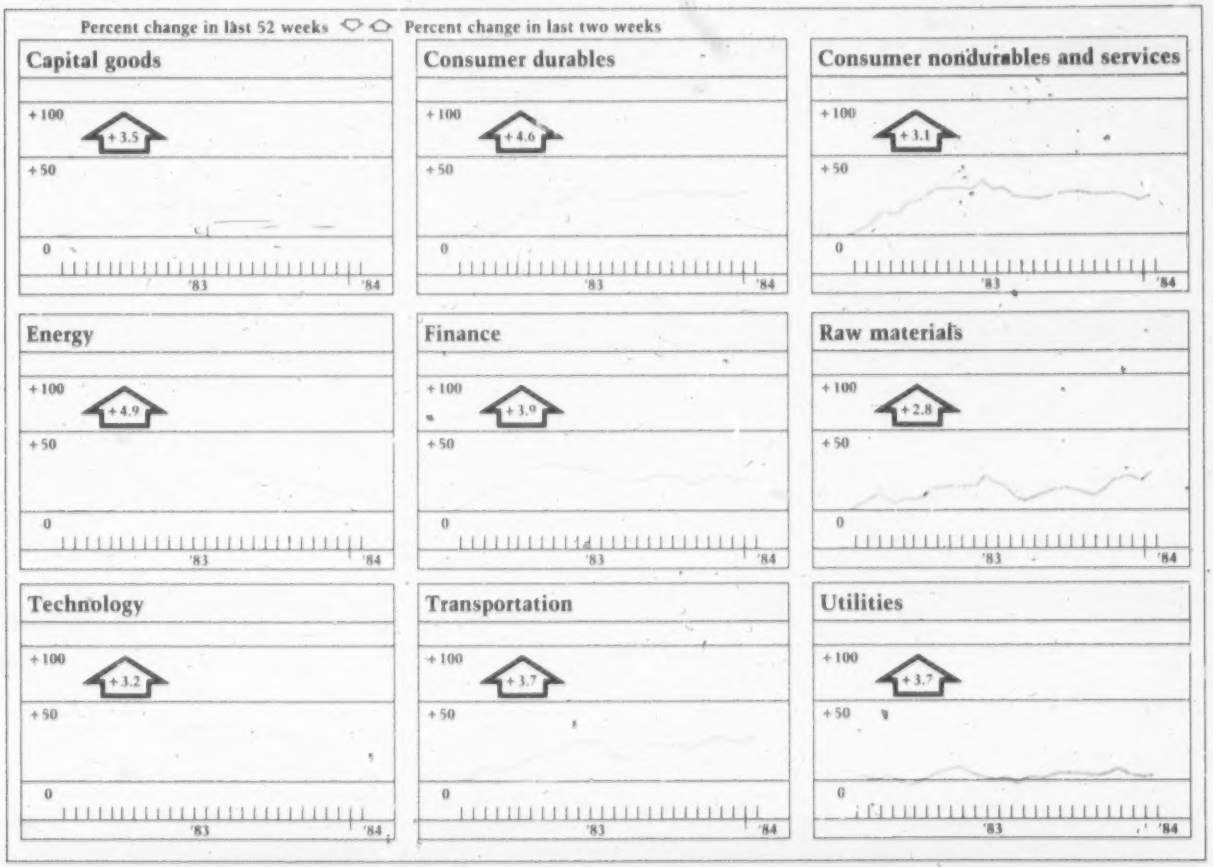
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 1/6/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

January thaw? The last time all nine sectors advanced over a two-week period was in November 1983. But one has to go back to late April to find the winning combination of most sectors showing sharp increases and every group posting gains. Over the last two weeks, energy, with a 4.9% jump, was the market's top performer. This rise, however, is probably attributable more to the Getty takeover battle than to an imminent oil patch turnaround.

A surge in auto stocks helped consumer durables to become the second-best performing group, with a 4.6% advance. Although brokerage stocks stumbled through the second half of last year, they recently regained some of their luster. The reason: Wall Street's early January volume, which helped propel the finance sector to a 3.9% gain.



What The Analysts Think

Black hole. Over the last two weeks analysts scaled back their 1984 earnings estimates on most sectors. But oil stocks were hit the hardest, with nearly a 7% downward revision. While the prospect of lower fuel costs may be good news for utilities and transportation companies, it is the opposite for the already suffering oils.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.53	13.1
1983 estimates	3.29	11.6
1984 estimates	4.37	8.6

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	% change in 1984 estimate in 4 weeks
1	Utilities	$3.36	0.88%	0.53%
2	Transportation	2.61	0.27	3.32
3	Consumer nondurables	2.46	–0.92	–0.23
4	Capital goods	2.13	–1.36	–1.22
5	Finance	3.98	–1.39	–2.75
6	Raw materials	2.81	–1.52	–2.46
7	Consumer durables	2.63	–1.73	–0.91
8	Technology	1.62	–2.15	2.50
9	Energy	1.88	–6.81	–5.72

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts.
These figures are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 1/6/84. Prepared by Wilshire Associates, Santa Monica, Calif.; Zacks Investment Research, Inc., Chicago, Ill.

Here are some unusual investments. They offer better-than-average yield and the potential of fat capital appreciation.

Convertibles are back in style

By Leslie Pittel

CONVERTIBLE PREFERRED STOCK used to be a Wall Street rarity. But not today. Look at the numbers: Forty-three new issues of convertible preferreds worth over $3 billion were sold last year. That is nearly 10 times the value of all 1982 offerings, according to Eli Tanenbaum of Lipper Analytical Services, a New York-based investment research firm.

Why the rush to sell convertible preferreds? Much of the new stock results from corporate mergers and acquisitions. Since the current takeover binge comes at the end of a recession, firms doing the acquiring usually aren't flush with cash. With interest rates high, there are good reasons to avoid borrowing, and balance sheets are often strained to the point where they can't accommodate any additional debt.

That's where convertible preferreds come in. Firms get needed cash at below bank rates. But to investors, the securities look enough like debt to be valued on the basis of yield. At the same time the shares offer the kicker of being able to benefit from a company's future earnings growth.

Like ordinary preferred stocks, convertibles have senior status over common shares in terms of dividend payments. They also usually offer a yield higher than that of common shares but below that of ordinary preferred.

On a daily trading basis, convertible preferreds behave a lot like common stock—with the downside protection of a relatively secure dividend. That's because of their exchange feature, which can be the source of considerable capital appreciation.

What's the best way to evaluate a convertible preferred investment? "First, you should really like the underlying common before even considering its convertible," says Mark Hunt, an analyst with Value Line's convertibles department.

With the appeal of the common in mind, search for three features in a convertible preferred. To begin with, compare the dividend of the convertible to the common and the ordinary preferred. Make sure the convertible's yield is higher than the common's.

Then look for the lowest conver-

Sporty shares for rain or shine

These convertible preferreds all offer higher yields than their underlying common. But they could rally just as smartly. And, if the common stocks falter, their preferreds' fixed dividends limit downside risk.

	Preferred			Common		EPS		Conversion		
Company	price	dividend	yield	price	yield	latest 12-month	1984 estimate	rate†	value‡	premium
AMR	40⅛	$2.12	5.3%	38½	0.3%	$2.41	$5.04	1.01	$38.89	3.2%
American Can*	42	3.00	7.1	48½	6.0	2.58	4.50	0.87	42.20	−0.5
Anheuser-Busch A*	49¼	3.60	7.2	64½	2.7	6.44	7.39	0.65	41.93	18.7
Armco	32⅝	2.10	6.4	21⅛	1.8	−12.39	2.35	1.27	27.46	18.8
Associated Dry Goods*	93	4.75	5.1	58	3.8	5.37	6.65	1.60	92.80	0.2
Barnett Banks Fla A*	42⅛	2.37	5.6	40½	3.0	4.44	5.25	1.04	42.12	1.2
Bell & Howell*	25⅛	0.60	2.4	25⅛	2.0	3.22	2.45	1.00	25.38	0.0
Bethlehem Steel	59⅜	5.00	8.4	29	2.1	−33.85	3.03	1.77	51.33	15.7
Bethlehem Steel	29⅜	2.50	8.5	29	2.1	−33.85	3.03	0.84	24.36	20.6
Boise Cascade	57	5.00	8.8	44⅛	4.3	1.75	4.22	1.10	49.09	16.1
Buckhorn	4¼	0.50	11.8	3⅜	0.6	−1.79	NA	1.14	4.13	2.8
Castle & Cooke	32	2.50	7.8	17¾	—	0.52	1.11	1.55	27.51	16.3
Champion Intl	56½	4.60	8.1	28⅞	1.4	0.98	3.25	1.67	48.22	17.2
Clevepak B*	19⅞	1.84	9.3	15½	3.9	0.47	NA	1.03	15.97	24.5
Cooper Inds*	37⅞	2.90	7.7	37	4.1	0.98	2.56	0.95	35.15	7.8

*Currently noncallable. † Number of common shares received upon conversion. ‡ Common stock price multiplied by conversion rate. NA: not available.

Sources: Lipper Analytical Services; Zacks Investment Survey, FORBES

Statistical Spotlight

sion premium. This is the difference between the market price of a share of convertible preferred and its conversion value. These values are usually expressed as a percentage. If, for example, a convertible trading at $125 can be swapped for four shares of common selling at $25 each, the conversion premium is 25%.

Finally, investors who want to minimize risk should buy securities with what is termed "call" protection. Without this, the issuer can redeem a security at any time at a fixed price. Most of the convertibles listed in this table have some call protection and, as the footnotes indicate, many are currently noncallable.

"The ideal convertible preferred should have a very high yield and a very low conversion premium," says John Calamos of Noddings, Calamos & Associates, a Chicago-based firm that specializes in convertibles. "While the owner is waiting for the stock to go up, he can at least benefit from a high current dividend." ■

Sporty shares for rain or shine

	Preferred			Common		EPS		Conversion		
Company	price	dividend	yield	price	yield	latest 12-month	1984 estimate	rate†	value‡	premium
Crown Zellerbach A	49¾	$4.63	9.3%	36⅞	2.7%	$–3.89	$3.82	1.06	$39.09	27.3%
Esmark B*	36½	2.80	7.3	44¾	2.3	3.66	4.26	0.71	31.77	21.2
First Interstate Bancorp*	29⅛	2.37	8.1	43	5.2	5.58	6.72	0.60	25.80	12.9
First Pennsylvania	27¼	2.62	9.6	7⅛	1.5	–1.14	NA	3.23	23.42	16.4
GAF	22⅛	1.20	5.4	17	0.3	–0.53	2.39	1.25	21.25	4.1
General Growth Prop	26¾	1.90	7.1	23½	2.6	0.42	0.90	1.00	23.50	13.8
Georgia-Pacific C*	30¾	2.24	7.3	25½	2.4	0.40	2.93	1.00	25.50	20.6
Harvey Hubbell C*	44	2.06	4.7	32¾	3.8	2.85	3.31	1.34	43.89	0.3
Household Intl C	47	2.50	5.3	32¼	5.3	3.50	4.15	1.50	48.38	–2.8
Household Intl D*	71½	6.25	8.7	32¼	5.3	3.50	4.15	1.92	61.92	15.5
Ingersoll-Rand	33½	2.35	7.0	52¼	5.0	–1.55	3.12	0.60	31.35	6.9
Integrated Resources*	32¾	3.03	9.3	27⅝	—	3.09	4.81	0.94	25.97	26.1
InterNorth*	140½	10.50	7.5	40	5.8	3.29	5.76	3.41	136.40	3.0
Jewel Cos*	33⅞	2.31	6.8	49	5.3	6.09	6.80	0.71	34.79	–2.6
Katy Inds B	73½	1.46	2.0	29	—	2.31	NA	2.58	74.82	–1.8
LTV B	30½	3.06	10.0	18¾	1.3	–6.19	2.56	1.30	24.38	25.1
Mattel	16¼	2.50	15.4	6⅛	1.3	–13.44	0.62	2.12	13.52	20.2
McDermott Intl	28⅛	2.20	7.8	27¼	1.7	2.44	2.95	1.00	27.25	3.2
National Intergroup*	76	5.00	6.6	37⅛	0.7	–5.42	4.86	1.87	69.89	8.7
PSA	18⅞	1.90	10.1	23⅛	2.6	–4.52	1.96	0.63	14.57	29.6
Penn Central*	100	5.27	5.3	39⅜	—	2.15	3.46	2.44	96.08	4.1
Pennwalt B	24	1.60	6.7	41½	5.3	2.20	4.28	0.58	24.07	–0.3
Pitney Bowes*	70	2.12	3.0	35⅝	2.6	2.62	3.42	2.00	71.25	–1.8
RCA*	29⅜	2.12	7.2	36¼	2.5	1.83	3.08	0.71	25.74	14.1
Republic Steel*	77	5.25	6.8	29	1.7	–13.20	2.64	2.61	75.69	1.7
RepublicBank A*	28½	2.12	7.4	31⅝	5.2	5.27	6.03	0.86	27.20	4.8
Signal Cos A	57	4.12	7.5	35	2.6	1.07	3.08	1.47	51.45	10.8
Talley Inds B	14½	1.00	6.9	11	2.3	0.87	1.15	1.05	11.55	25.5
Textron A	37	2.08	6.1	34	4.9	2.23	3.31	1.10	40.70	–16.5
Time Inc B*	88	1.57	1.8	61½	1.6**	2.56	4.38	1.44	88.56	–0.6
Trans World Airlines	21⅛	2.25	10.7	12¼	—	–1.22	1.03	1.50	18.38	15.0
Trans World Corp C*	42¼	2.66	6.3	40⅜	—	–0.44	3.44	1.00	40.38	4.6
UAL Inc B*	28⅜	2.40	8.5	39	0.6	4.65	4.53	0.59	23.01	23.3
Union Pacific*	114½	7.25	6.3	52⅛	3.5	3.27	4.85	2.00	104.25	9.8
US Steel*	154	12.75	8.3	32¼	3.1	–6.23	3.40	4.49	144.80	6.4
US Steel*	30½	2.25	7.4	32¼	3.1	–6.23	3.40	0.87	28.14	8.4
United Technologies*	33⅜	2.55	7.6	74¼	3.5	7.60	9.18	0.39	28.96	15.3
USLIFE	29⅜	2.25	7.7	29½	3.3	3.71	4.15	0.87	25.67	14.5
Weyerhaeuser	44½	2.80	6.3	35	3.7	1.07	3.28	1.21	42.35	5.1
Weyerhaeuser*	49⅞	4.50	9.0	35	3.7	1.07	3.28	1.11	38.85	28.4

*Currently noncallable. † Number of common shares received upon conversion. ‡ Common stock price multiplied by conversion rate.
** Prior to spinoff of Temple-Inland. NA: not available.
Sources: Lipper Analytical Services, Zacks Investment Survey, FORBES.